

Review: 4273
Statewide Single Audit
Year Ended June 30, 2006
Department of Employment Security
9 Recommendations, 6 Repeated
7 – Implemented, 2 – Under Study

06-60. The auditors recommend IDES review its procedures for the coordination of the Trade Adjustment Assistance program and implement any changes necessary to ensure payments are made only to eligible participants. Further, IDES should implement procedures to ensure vocational and training plans, training agreements, and applicable waiver forms exist and are properly completed, reviewed, and approved. (Repeated-2004)

Findings: IDES did not adequately administer or coordinate the program responsibility of the Trade Adjustment Assistance – Workers (TAA) program with the Illinois Department of Commerce and Economic Opportunity (DCEO) resulting in inadequate case file documentation and the payment of benefits to ineligible individuals.

The purpose of the TAA and the North American Free Trade Agreement-TAA (NAFTA-TAA) programs are to assist individuals who become unemployed or underemployed as a result of increased imports or a shift of production to Mexico or Canada to return to suitable employment. The TAA program is administered in Illinois jointly by DCEO through Local Workforce Investment Areas and other local providers, and by IDES. DCEO is responsible for written determinations concerning client eligibility for training or training waivers.

During test work of the TAA program, auditors selected 50 individuals receiving TAA benefits to review for compliance with eligibility and allowability requirements, and noted IDES paid benefits to individuals without determining whether those individuals were properly enrolled in or waived from training as follows:

- In 32 cases, the waiver for training was either not signed by a state official, did not document why the waiver was issued, or did not document that a review of the conditions upon which the waiver was granted had taken place every 30 days. Benefits paid to these individuals during the year ended June 30, 2006 were \$312,844.
- In seven cases, the worker's enrollment date did not occur within sixteen weeks of his/her most recent total qualifying separation date, or within eight weeks of the issuance of the petition certification, whichever is later. Benefits paid to these individuals during the year ended June 30, 2006 were \$18,000.
- In two cases, DCEO and IDES were unable to locate the training agreement. Benefits paid to these individuals during the year ended June 30, 2006 were \$31,798.

- In one case, IDES did not properly approve and/or date the vocational and training plan. Benefits paid to this individual during the year ended June 30, 2006 was \$21,982.
- In twenty cases, DCEO and IDES were unable to locate a vocational and training plan. Benefits paid to these individuals during the year ended June 30, 2006 was \$41,990.

Agency officials stated that the program was in a state of transition at both the federal and state levels and the federal government had not yet promulgated rules to implement the Trade Act of 2002.

Response: We agree. We have and will continue to work collaboratively with both DCEO and the US Department of Labor (USDOL) to ensure future TRA benefit payments are handled in accordance with USDOL's directions. A settlement was reached with USDOL covering this issue and all 50 of the payments tested were related to claims initiated during the period covered by the settlement.

Updated Response: Implemented.

06-61. The auditors recommend IDES implement procedures to ensure all eligibility determination documentation is complete and properly maintained.

Findings: IDES did not maintain complete documentation supporting client eligibility determinations made for the Unemployment Insurance program.

During test work of the UI program, auditors selected 60 beneficiary payments to review for compliance with eligibility requirements and for the allowability of the related benefits, and noted the following exceptions:

- In two cases, the claimant's application contained insufficient documentation to determine if the claimant had dependents and provided over half the support, however the benefit payment included a dependent allowance. One claimant was subsequently notified by IDES and verified that the claimant did have a dependent. Additional dependent benefits paid to the other individual during the year ended June 30, 2006 were \$721.
- In three cases, the UI application did not contain evidence that the claimant's identification was reviewed during the claim intake process. In each instance the auditors noted other procedures performed by IDES to support the eligibility of the claimants.
- In two cases the application was not complete and did not document if the claimant received shutdown pay. In each case additional documentation in the claimant's electronic case file supported there was no shutdown pay received.
- In one case, the claimant chose to have federal income taxes withheld, however no taxes were deducted from the benefit amount.

IDES states they believe these were relatively isolated instances where staff was somewhat less diligent in their application of existing procedures.

Updated Response: Implemented. We reviewed existing procedures and determined they adequately address the documentation requirements. We also have reinforced the importance of these documentation procedures with staff on several occasions. Beginning in December 2006, Local Office Managers review a sample of claim applications each week for completeness and accuracy. It should be noted that the single instance with questioned costs noted here is a claim that was previously identified as being fraudulent through the use of other internal controls and we are attempting to recover the benefits paid to this individual as aggressively as the law allows.

06-62. The auditors recommend IDES clearly document the resolution of each exception report (including supervisory review) and retain the reports as considered necessary to comply with federal audit requirements. IDES should also consider automating the claim exception edit reports into the Benefits Information System in future years to facilitate a more efficient and effective process for claims exception resolution documentation. (Repeated-2005)

Findings: IDES does not adequately document the review and follow up of claim exception reports. The IDES Central Office generates several system (exception) reports to facilitate proper benefit payment that are utilized at the local office level and monitored by local office and/or regional office management. Per federal program emphasis, several of the common reports reviewed locally are designed to report claims with unresolved issues that are preventing payment, as a tool to ensure payments to eligible individuals are made timely.

During test work, auditors noted that IDES only retains claim edit reports (except for the sensitive changes report) for a period of three months after the end of each quarter.

IDES officials believe that the exceptions on the reports are being processed and/or corrected.

Updated Response: Implemented – Training and/or retraining of staff in the local offices responsible for processing the exception reports occurred between December 2006 and February 2007. In addition, our procedures were updated to ensure consistency throughout the state.

Under Study – However, space limitations would preclude extending the retention period of the paper reports. We continue to consider more extensive automation of the reporting process as part of the ongoing benefit system redesign. In May 2007, the agency applied for and subsequently received \$100,000 in supplemental funding from USDOL to address automating the exception reports.

06-63. The auditors recommend IDES establish clear criteria for determining which claims should be investigated. IDES should also document procedures performed. (Repeated-2005)

Findings: IDES does not have adequate procedures for follow up on multiple unemployment benefit checks delivered to the same address.

To help detect potentially fraudulent Unemployment Insurance claims, IDES monitors unemployment benefit checks paid under more than five social security numbers that are delivered to the same address via a multiple claims same address edit report. This report is generated on a monthly basis and is sent to the Benefit Payment Control unit for resolution. Total claims identified under the multiple claims same address edit reports were 38,949 during the year ended June 30, 2006.

A supervisor reviews the claimants identified in the report and determines what follow-up procedures, if any, are to be performed. However, there are no clear criteria documented for determining which claims should be investigated. Additionally, there is no documentation of the procedures performed on these claims by the Benefit Payment control unit.

Response: We agree. When this was reported as a finding in last year's audit, we began to address the recommendation. On September 13, 2006, the procedure on the Multiple Claimant/Single Address Report was revised to include criteria for determining which addresses are investigated, documentation of supervisory review, documentation of follow-up procedures performed and retention requirements.

Updated Response: Implemented.

06-64. The auditors recommend IDES:

- **Follow the established formal review process for all directives prior to communicating them to the local offices and prior to updating the manual on the intranet.**
- **Maintain copies of claim application, identification, and work history in claimant eligibility files or the Benefits Information System as appropriate.**
- **Implement a supervisory review of claimant eligibility files on a sample basis to ensure all necessary documentation is present and policies and procedures have been appropriately followed. All supervisory reviews should be documented in the claimant eligibility file or the Benefits Information System as appropriate. (Repeated-2005)**

Findings: IDES policies and procedures are not updated on a timely basis nor are they consistently followed by local offices.

IDES has developed a comprehensive policies and procedures manual available on their intranet to all employees to allow for the consistent and proper administration of the UI program. Updates or clarification to the manual are issued through directives by the process owners. However, IDES did not always follow the process in place to ensure the manual is updated for these directives. As a result, auditors noted policies and procedures were not consistently followed at local offices, including the following:

- Certain individuals were utilizing outdated printed copies of the manual rather than referring to the intranet for the most recent version.
- Procedures for clearing and documenting items from claim exception reports were not consistent between offices.
- Copies of claimant identification (e.g. driver's license and social security card) were maintained at certain locations, but not others.
- During the calendar year ended December 31, 2005, one local office allowed a "drop off" policy which did not require a face to face interview.

Applications were accepted over the internet without the claimant providing identification or being interviewed.

IDES officials stated that some individuals preferred to use hard copies of the discontinued printed manual. The specific methods to document review of the exception reports were not formalized or standardized for all reports. Procedures do not require that claimant identification be maintained, only that it be reviewed during the intake process. The "drop off" policy was implemented by the local office without Central Office approval.

Updated Response: Implemented. As a result of this finding being reported in last year's audit, the identified directive that was issued via a memo was formally incorporated into the agency's Procedure Manual in October 2006.

Under Study. The Department is reworking the intake process as part of the Benefit Information System redesign which will allow for consideration of how identification and other documentation are best retained. However, we have not yet determined if it will be desirable to standardize identification documents since the identification authentication process will most likely be different for in-person claims than it will be for claims filed over the Internet. Currently, internet claims are validated using the wage record system and, if the claimant has filed before, the previous claim information is used.

Implemented. A weekly, random management review of claimant eligibility files was implemented in December 2006 and is documented on a standard worksheet that was developed for this review.

06-65. The auditors recommend IDES implement procedures to ensure the cash draws are reconciled to actual disbursements (cleared checks).

Findings: IDES did not follow established procedures to reconcile cash draws in the Trade Adjustment Assistance program to actual disbursements (cleared checks). One of thirty draws selected for test work was \$783 dollars more than the amount of checks that cleared the bank for that day, resulting in a cash overdraft.

IDES stated that in the past they have not compared the amount obtained from the website to the amount of checks that actually cleared the bank, and that they have relied upon the bank to perform that reconciliation.

Response: We agree. The TRA overdraft was the result of an initial error in the Federal Reserve Bank's (FRB) Combined Account Total Report (i.e., total checks cleared with separate subtotals for TRA and UI), which they later corrected, but which was undiscovered by IDES. We have established and implemented procedures to reconcile the checks presented for payment in the cash letter to the electronic file of cleared checks received from the bank.

Updated Response: Implemented.

06-66. The auditors recommend IDES implement procedures to ensure cash draws are made in accordance with the US Treasury Regulations. (Repeated-2005)

Findings: IDES does not have adequate procedures to ensure cash draws are performed in accordance with U.S. Treasury Regulations.

Auditors noted two of 30 draws selected for test work for the Employment Services Cluster utilized a payment schedule method, a common funding technique prescribed in the TSA. This method requires that the amount of the cash request is the annual grant divided by 24. However, this program was not included in the TSA.

IDES stated that this was an error that was isolated to the Wagner Peyser Grants, which are a portion of the Employment Services Cluster.

Response: We agree. As a result of a similar finding in last year's audit, we established and implemented a review and approval procedure by the Supervisor of Cash Management for all cash draws that will eliminate future errors.

Updated Response: Implemented.

06-67. The auditors recommend IDES personnel formally document the review and approval of the ETA 563 special report which reports the number of individuals receiving different types of TAA benefits.

Findings: IDES has not implemented formal review and approval procedures for the ETA 563 performance report.

During a review of the ETA 563 report, the auditors noted the same IDES employee accumulates the information on the excel spreadsheet, prepares and submits the ETA 563 report to DCEO without a formal, documented supervisory review.

Updated Response: Implemented. The ETA 563 is a collaborative effort between IDES and DCEO. IDES submits data taken from an information systems report (TRO25MC) to DCEO for additional input and their subsequent transmission to the Employment and Training Administration (ETA) in Washington, DC. As of the 4th quarter of 2006, the federal requirement changed and the new mandate calls for a summary of Trade Adjustment Activities for the quarter to be reported to ETA instead of detail by petition number. The IDES review process was revised beginning with the 2nd quarter calendar year 2007 report to include a final quality and accuracy review by the Manager of Economic Information and Analysis UI Research prior to transmitting the data to DCEO.

06-68. The auditors recommend IDES implement procedures to ensure policies and procedures are adequately documented, updated, and followed. The auditors also recommend that IDES document its semi-annual review of the appropriateness of user access rights and its resolution of all reported problems. (Repeated-2005)

Findings: IDES does not have adequate documentation of access, change management, and computer operations controls over the information systems that support the Unemployment Insurance (UI) Program.

During test work over the access, program change and development, and computer operations controls of the mainframe system, the auditors noted the following:

- The policy in place for terminating access rights is not followed. Specifically, the auditors selected 25 employees that were terminated and noted that IDES did not document requests to delete user IDs after employees have been terminated.
- User account privileges and profiles are reviewed on a semi-annual basis to confirm the appropriateness of user access rights; however these reviews are not documented.
- One technical services and security manager utilizes two active user IDs, one of which has been assigned to this individual's name.
- Security badge request forms for access to the IT computing resources could not be located.
- Policies and procedures relating to the documentation of testing of program changes have not been updated since 1997. The auditors selected 25 program changes and noted that there was no evidence of testing performed on the authorization form. Additionally, eight of the 25 changes were approved by the same individual requesting the change.

- User acceptance tests for the development of one new system placed into production did not have signatures from two members of the project team.
- The Information Security Policies and Procedures have not been updated since 1999.
- IDES does not have documented data backup policies and procedures for the mainframe environment
- Formal problem management documentation has not been incorporated into the policies and procedures manual.

Updated Response: Implemented. RACF procedures were reviewed to ensure that RACF access termination requests are properly documented. Technical Services and Security (TSS) staff did not always document requests to terminate user access; however, documentation procedures are in place and have been included in the Procedures Manual. Security badge requests for access to the computer room are now kept in a separate file for easy retrieval. The Department also has documented procedures for information systems backup and restoration. The prior findings have been addressed and corrected including documentation of the semi-annual review of access rights.